

Agency: 462 Wa Pollution Liab Insurance Program

Decision Package Code/Title: AB Increased Staff Operational Growth

Budget Period: 2013-15

Budget Level: PL - Performance Level

Recommendation Summary Text:

PLIA requests an increase in staffing levels as of May 1, 2015, to meet increasing customer demands, and continue to build on recent improvements in agency programs. A licensed hydrogeologist will provide necessary technical expertise and guidance for statewide oversight of agency insured and reinsured cleanup site claims with complex requirements, including groundwater cleanup and monitoring. A financial manager will provide the agency with in-house administration of agency financial functions, as well as the ability to exert increased financial oversight related to insurance treaty renegotiations.

Fiscal Detail

Operating Expenditures	<u>FY 2014</u>	<u>FY 2015</u>	<u>Total</u>
544-1 Pollution Liab Insurance Prog Trust-State		28,050	28,050
545-6 Heat Oil Pollution Liability Trust-Non-Appropriated		28,050	28,050
Total Cost		56,100	56,100
Staffing	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY2 FTEs</u>
FTEs	.0	.4	.4

Package Description:

Background

PLIA reinsures approximately 80% of Washington's commercial underground storage tank insurance market. Currently, 74 underground storage tanks sites are undergoing a cleanup funded through PLIA's reinsurance program, some dating back to the mid-1990s. Past site closures have not been achieved in a timely manner. Across the state there are more than 3,000 active leaking underground storage tanks, a number which is likely to increase, given:

- More than 80% of Washington's tanks are older than the 20 years.
- Within five years, more than 50% of Washington's tanks will have exceeded the standard life expectancy for a steel tank (30 years).

PLIA recently underwent a leadership change and has reassessed the preferred outcomes for cleanups funded or evaluated through the agency's programs. To increase the number of reinsurance claim closures per year and ensure progress toward decreasing the state's leaking underground storage tank backlog, PLIA implemented a new portfolio management process. In addition, PLIA is evaluating a new program to increase the availability of financial resources for owners of aging tanks who wish to upgrade their infrastructure.

The current underground storage tank reinsurance treaties, established in 2001, do not adequately reflect current conditions, and have failed to encourage expedient and efficient cleanups. PLIA will be renegotiating the reinsurance program's treaties to ensure adequate protection of policy holders, strengthen the agency's oversight of cleanups, and increase the efficiency and cost effectiveness of the cleanup process.

PLIA is also taking on a stronger role in its heating oil programs to ensure regulatory compliance for actions funded or evaluated under those programs. Participation in PLIA's technical assistance program has increased significantly. Heating oil tank owners and operators may enter the program to request a written opinion from the state on the results of independent cleanup actions. The technical assistance program has seen a 500% increase in requests over the previous year (700% increase over the past 10 years). Several sites recently entered into the program involve the evaluation of groundwater impacts.

Current Situation

PLIA's director currently serves a dual role as the agency's primary technical expert to validate and verify complex cleanup actions, while also arbitrating any appeals to agency decisions. All financial services are contracted out to the Department of Enterprise Services' Small Agency Financial Services. The agency has been working closely with the Department of Ecology, and Colony Insurance Company, the largest insurance company reinsured by PLIA, to improve claim management and cleanup processes by implementing a portfolio management process. Under the newly implemented process the agency began in January 2014, we have met with Ecology, insurance carriers, and environmental consultants 19 times and brought two sites to regulatory closure. Six opinion letters have also been issued. Further improvements are needed to continue making progress in reducing the state's backlog of leaking underground storage tanks.

PLIA plans to renegotiate existing insurance treaties and policies to ensure:

- Increased transparency of claim billing.
- Opportunity for agency review of information and costs prior to submittal to regulators.
- Completion of a scope of work to establish reserves and all adjustments.
- Timelines to closure, milestones, and estimated cost.
- Established communication process for expenditure approval.
- Quarterly status review meetings.

Proposed solution

PLIA proposes the addition of two FTEs: a licensed hydrogeologist and a financial manager.

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

PLIA expects to meet increasing customer demand, reduce the time required to reach site closure on claim cleanups, provide expert technical oversight and verification of regulatory compliance, and put into place renegotiated insurance treaties that provide increased benefits to the citizens of the state of Washington.

Performance Measure Detail

Activity: **A001 Heating Oil Tank Liability Insurance**

Activity: **A002 Pollution Liability Reinsurance**

Incremental Changes

No measures submitted for package

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

Yes. The addition of a licensed hydrogeologist and financial manager will assist PLIA in improving the economic and environmental health of the state of Washington and its citizens. These positions specifically support the protection of the state's environment and more efficient use of the state's and its citizen's financial resources, as well as allow the agency to better achieve its current performance measure of completing comprehensive reviews to ensure underground storage tank claim funds are applied appropriately to meet state cleanup requirements in an efficient manner.

Does this decision package provide essential support to one of the Governor's priorities?

PLIA expects to meet increasing customer demand, reduce the time required to reach site closure on claim cleanups, provide expert technical oversight and verification of regulatory compliance, and put into place renegotiated insurance treaties that provide increased benefits to the citizens of the state of Washington.

Does this decision package make key contributions to statewide results? Would it rate as a high priority in the Priorities of Government process?

Yes. The proposed addition of a licensed hydrogeologist and financial manager supports the following Results Washington Goals:

- Goal 3 for Sustainable Energy and a Clean Environment - contaminated sites will be remediated in a timely manner, meeting state environmental regulations.
- Goal 4 for Healthy and Safe Communities - groundwater impacts at contaminated sites will be properly identified and addressed.
- Goal 5 for Efficient, Effective and Accountable Government - cleanups will be performed expeditiously with close oversight by the agency to ensure the appropriate use of state funds and enhance communities statewide.

What are the other important connections or impacts related to this proposal?

Currently the agency director serves as the primary technical expert for the agency. This causes a conflict of interest given that he is also responsible for arbitrating any appeals or disputes. The addition of a licensed hydrogeologist will provide the agency with technical expertise and eliminate a potential for conflicts of interest. The addition of a financial manager will provide the agency with in-house financial expertise and increase the efficiency of agency financial planning. The addition of these two positions has received support by the agency's most active outside stakeholders, the Western States Petroleum Association, the Washington Oil Marketers Association, and the United State Environmental Protection Agency.

What alternatives were explored by the agency, and why was this alternative chosen?

The first alternative considered leaves the agency with no changes to staffing. PLIA would continue to seek licensed, technical and financial expertise from the Department of Ecology and the Department of Enterprise Services, respectively, and the agency director would continue in the role of technical expert.

The chosen alternative allows PLIA to hire two FTEs, a licensed hydrogeologist and a financial manager to provide necessary in-house expertise and oversight of agency activities in their respective subject matters in a more consistent and timely manner. The addition of these two positions addresses deficiencies identified by the agency and OFM staff, and resolves one of these, which delayed the agency's ability to move ahead with proposed legislation to proactively address the state's problem of aging underground fuel storage tanks and related infrastructure.

What are the consequences of not funding this package?

PLIA faces increased customer demand, sophisticated business partners and a looming insurance crisis. PLIA's ability to provide strong oversight of insurance claims, effectively renegotiate insurance treaties, and address the state's aging tank population will suffer. Without addressing the aging tank crisis, it will become increasingly harder for PLIA to meet its mission, as insurance will become less available and affordable.

What is the relationship, if any, to the state's capital budget?

None

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

The interagency agreement with the Department of Enterprise Services would require modification.

Expenditure and revenue calculations and assumptions

The anticipated cost for the 2015 fiscal year will be \$56,084. This includes:

- One new position to oversee and provide licensed hydrogeologic technical support for cleanup projects funded or evaluated under agency programs statewide. Hydrogeologist 5 (Range 70)
- One new position to oversee the agency's financial functions. Financial Manager WMS
- Additional administrative and technology funding associated with the two new positions: new computers, software, and installation for

two new employees = \$3,586 (based on pricing information on CTS' website - July 2014).

-Additional office space: the agency's leased space for 6.6 employees is approximately 1,200 square feet. With the addition of two new FTEs, we estimate the total amount of space needed to accommodate the agency will be 1,984 SF (based on the Modified Pre-Design Form). PLIA's existing lease rate is \$30/SF. We assume the lease rate per square foot will remain the same and our lease obligation will increase to \$4,960 per month - a 65% increase. On-going costs for additional 784 SF will be \$1,960 per month - or \$3,920 for FY 2015 (May and June).

Summary of costs FY15:

Salaries/benefits	\$ 37,122
Goods/services	11,456
New computers/software	3,586
Increased lease/space	3,920
Total cost =	\$ 56,084

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

One-time costs include the purchase of computer equipment/software. On-going costs include the salaries and benefits for additional staff, increase in goods and services, and anticipated lease rate increase.

<u>Object Detail</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>Total</u>
A Salaries And Wages		26,500	26,500
B Employee Benefits		10,600	10,600
E Goods\Other Services		15,400	15,400
J Capital Outlays		3,600	3,600
Total Objects		56,100	56,100